

BLUE CRANE DEVELOPMENT AGENCY

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Municipal Manager: Mr. M. Mene
BCRM
Somerset-East
5850

Date: 02/09/2010

Dear Sir

RE: Audit Findings 2008

Attached is the Audit findings for the year 2008. The current copy is in a draft format, as the original documentation has not been received by the BCDA. The original copy will be forwarded to you as soon as same is received by the BCDA.

The BCDA request an urgent meeting with the BCRM's Chief Financial Officer to discuss the way forward on the findings as well as on the two outstanding audits.

Attached is also the minutes of the meeting that was held last Friday, 3rd of September 2010.

BCDA appreciates your support.

Regards,

(C. Wylken: Blue Crane Development Agency)

Conrad
082 796 8951

Cc: BCRM CFO: Me. D. Sauls

FILE NOTES

MEETING: Blue Crane Development Agency + Provincial Treasury

DATE/TIME: Friday 27 August 2010 (10:20am)

VENUE: BCDA Offices, Somerset East

ATTENDED BY: BCDA- Conrad Everson

Chris Wilken

Rob Beach

Nico Lombard

Provincial Treasury- Nombulelo Oliphant
(PT) Wendell Scott

OBJECTIVE: Discussion on status of financial statement and affairs relating to the BCDA

INPUTS:

The BCDA provided an overview of the history of the BCDA:

- Establishment, Sec 21 company.
- Role of IDC, BCRM.
- Organisational Institution
 - Institutional Conversion of the BCDA from Sec 210 to a Municipal Entity
(Not yet completed, although BCRM has attempted to accomplish.
BCDA requested GB&G to follow up with CIPRO)

The BCDA provided an overview of the audit history of the BCDA:

- Consultation with Auditor General , pre 2007/2008 Fin-year audit
- Mr. Bekker from AG unable to conduct audit-uncertainty on development agencies
- Routine audits conducted by: Gerber, Botha & Gowar (Somerset East auditors)
: IDC on a six monthly basis

The BCDA explained its reporting procedures:

- To BCRM as parent municipality
- To IDC as funder
- To other role players

The BCDA provided an overview and update of the 2007/2008 Fin-year audit

- Audit commenced in May/June 2009
- Change of audit personnel
- Auditor General's indication of issuing a disclaimer of opinion (not yet received)

- BCDA currently waits from the Auditor General for 2007/2008 Fin-Year with regard to the audit:
 - The issue of Disclaimer of Opinion
 - Management Letter/Response – Findings

The BCDA on financial statement:

- March 2008-June 2009 (16 months) Long time frame to align BCDA with BCRM financial year end
- July 2009-June 2010 (12 months)
 - BCDA to submit draft/pro forma financial statement 31August2010
 - BCRM – Parent Municipality
 - Pro forma statement will exclude 07/08 findings
 - BCDA procured services of Moore Stephens (Accountants)
 - Preparation of the 2 sets of AFS.
 - Require 07/08 audit info to complete 08/09,09/10 Fin-yrs
 - 2 sets to include 07/08 findings
 - Problems with SARS/Vat explained and being one of the areas highlighted by the AG.

The BCDA explained the problem concerning the AG's outstanding account.

- Currently standing at R380 000 odd for a R5m turn over
- AG promised to stop the clock at R287 000
- BCDA paid R50 000 equal to 1% of its turnover in line with Legislative requirements, in April 2010
- BCRM in negotiations with AG to pay the balance
- Prov. Treasury requested BCDA not to proceed with payment as they will intervene-PT explained the procedure of approaching National Treasury-A letter of request for payment is not sufficient-AG to submit such a request via a special application form to NT- Pt undertakes to intervene by arranging a special meeting with the AG.

The VAT status of BCDA is discussed

- BCRM requested BCDA to sort out VAT status in March 2010
- BCDA explains the VAT issue history
- Request for exemption application through Deloittes, submitted to SARS in April 2010
- SARS indicated that a finding will be forth coming at the end of August 2010

OUTPUTS:

PT will: Arrange a meeting with AG to discuss:

- Outstanding audits from BCDA and how to go forward with expedite the audits without compromising the municipality's audit status
- Funding application through NT to resolve the outstanding audit bill

BCDA: Send correspondence to PT

- Regarding the VAT application for exemption
- Report on the Audit history of BCDA
- IDC budget application for year 2010
- Contact details of auditors

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(CJ. Wilken: Act. CEO BCDA)

.....
(Ms. Nombulelo Oliphant: Senior Manager: Municipal Finance: Prov. Treasury)

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE BLUE CRANE ROUTE MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Blue Crane Route Municipality which comprise the balance sheet as at 30 June 2009, and the income statement and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements of the Blue Crane Route Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters.

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

8. As disclosed in note 28 to the financial statements, fruitless and wasteful expenditure to the amount of R88 800 was incurred in respect of interest and penalties. The fruitless and wasteful expenditure was incurred as a result of a lack of oversight by the accounting officer.
9. Formal written price quotations for procurements with a transaction value exceeding R10 000 up to R200 000 (VAT included) could not be provided for expenditure amounting to R538 849 (VAT included), as required by Supply Chain Management (SCM) Policy section 3.10. This resulted in the irregular expenditure disclosed in note 28 to the financial statements. The irregular expenditure was incurred as the supply chain management policy was not adequately communicated to the staff involved to ensure that internal control processes and responsibilities are adequately executed.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

10. The supplementary statistical information set out in appendix F to the financial statements does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

11. The municipality has failed to report the fruitless and wasteful expenditure of R88 800 included in note 28 to the financial statements to the MEC for local government and the Auditor-General as required by section 32(4) of the MFMA. The

reports were not submitted as a result of a lack of oversight by the accounting officer over financial reporting and internal control.

12. Revenue received by the municipality from the traffic department acting as a collecting agent on behalf of the municipality is not reconciled on a weekly basis as required by section 64(h) of the MFMA. The reconciliations were not performed as there is a lack of documented policies and procedures that detail the standard procedures are required to ensure that the transaction are completely and accurately processed.
13. A risk assessment was conducted, however the risk management strategy did not include a fraud prevention plan as prescribed in terms of section 62(c)(i) of the MFMA. The fraud prevention plan was not included as the municipality did not determine a risk strategy/action plan to manage the identified risks.
14. The internal audit plan did not include the audit of compliance with the MFMA, annual Division of Revenue Act, 2008 (Act No. 20 of 2008) (DoRA) and any other applicable legislation as required by section 165(2)(b)(vii) of the MFMA. This was as a result of a lack of oversight by the accounting officer and the audit committee.

Electricity Regulation Act, 2006 (Act No. 4 of 2006)

15. The requirements of section 15(2) of the Electricity Regulation Act, 2006 was not complied with as the municipality applied electricity tariffs in excess of the tariffs approved by the Regulator. The deviation was not approved by the Regulator as required by section 15(3) of the Electricity Regulation Act, 2006. The approval was not obtained as a result of a delay in the process required to obtain the required information.

Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

17. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays of the availability of requested information.	X	
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	

No.	Matter	Y	N
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	X	
5.	Key officials were available throughout the audit process.	X	
6.	Audit committee		
	<ul style="list-style-type: none"> • The municipality had an audit committee in operation throughout the financial year. • The audit committee operates in accordance with approved, written terms of reference. • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	X	
7.	Internal audit		
	<ul style="list-style-type: none"> • The municipality had an internal audit function in operation throughout the financial year. • The internal audit function operates in terms of an approved internal audit plan. • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	X	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	X	
13.	The prior year audit findings have been substantially addressed.	X	
14.	SCOPA/Oversight resolutions have been substantially implemented.	N/A	
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation	X	

No.	Matter	Y	N
	to the budget and delivery by the Blue Crane Route Municipality against its mandate, predetermined objectives, outputs, indicators and targets.(section 68 of the MFMA)		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

18. The material amendments made to the financial statements were mainly as a result of a lack of knowledge on specific accounting matters.

19. The significant deficiencies in the design and implementation of internal control in respect of financial, risk management and compliance with laws and regulations is a result of a lack in implemented documented policies, procedures and practices over financial and compliance reporting objectives.

20. There is a lack of a formal documented performance management system which includes policies and procedures to guide the entire process over the reporting on performance information.

Investigations

21. The Special Investigation Unit (SIU) is currently conducting an investigation at the traffic department with regards to all financial activities, operational activities (Learners and drivers licence testing) and the control environment.

22. The Department of Roads and Transport (Aviation) is conducting an investigation to determine whether the funds allocated in respect of the airfield was utilised for its intended purpose.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

23. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

24. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

25. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.
26. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

28. The accounting officer of the municipality did not (by 25 January of each year) assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as prescribed in terms of section 72 of the MFMA.
29. The municipality's budget did not include a multi-year business plan for the Blue Crane Development Agency as prescribed in terms of section 87(5)(d) of the MFMA.
30. The proposed budget for the Blue Crane Development Agency was not tabled in council when the annual budget for the municipality was tabled as prescribed in terms of section 87(2) and (3) of the MFMA.
31. The Blue Crane Development Agency did not prepare an annual report for the 2007/08 financial year as prescribed in terms of section 121(1) of the MFMA.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

32. The Integrated Development Plan (IDP) does not reflect a financial plan which includes a budget projection for at least the next three years as prescribed in terms of section 26(h) of the MSA.
33. Notice to the public of the adoption of the IDP was not given within 14 days of the adoption as prescribed in terms of section 25(4)(a) of the MSA.
34. The key performance indicators set by the municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.
35. The municipality did not adopt and implement a framework that assesses employees, other than section 57 managers, as prescribed in terms of section 67(1)(d) of the MSA.

36. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.
37. There performance management system in place was not approved by the council as prescribed in terms of section 39(c) of the MSA.
38. A performance report reflecting a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year has not been prepared as required by section 46(1)(b) of the MSA.
39. The 2008/09 Integrated Development Plan (IDP) was not clearly aligned with the 2008/209 Service Delivery and Budget Implementation Plan (SDBIP) as the development priorities/objectives, key performance indicators and the targets per key performance indicators were not consistent. This is in contravention with the prescripts of section 25(1)(a)-(c) of the MSA.

Municipal Planning and Performance Management Regulations, 2001

40. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.
41. The audit committee which functions as the performance audit committee did not include at least one person who has expertise in performance management, as prescribed in terms of regulation 14(2)(b) of the Municipal Planning and Performance Management Regulations, 2001.
42. The audit committee did not review the quarterly reports and the performance management system and make recommendations in this regard to the council, as prescribed in terms of section 14(4)(a) and (b) of the Municipal Planning and Performance Management Regulations, 2001.
43. The key performance indicators included in the 2008/09 Integrated Development Plan (IDP) were not measurable (verifiable) and precise (well-defined) as prescribed in terms of section 9(1)(b) the Municipal Planning and Performance Management Regulations, 2001.
44. The targets per key performance indicator included in the 2008/09 Integrated Development Plan (IDP) were not specific, measurable and time-bound as required by the prescripts of section 12(2)(a)-(e) of the Municipal Planning and Performance Management Regulations, 2001

Blue Crane Development Agency By-Laws

45. A performance agreement between the Blue Crane Route Municipality and the Blue Crane Route Development agency was not in place in the current year as prescribed in terms of the Blue Crane Development Agency By-Laws Provincial Gazette Extraordinary, 13 March 2008, No.1841.

Usefulness and reliability of reported performance information

46. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

47. The municipality has not reported throughout on its performance with regard to its development priorities/objectives, key performance indicators (KPIs) and targets per KPIs as per the approved 2008/09 integrated development plan (IDP).

48. Inconsistencies have been identified between all the development priorities/objectives, KPIs and targets per KPIs as per the approved 2008/2009 IDP and the 2008/09 annual performance report:

Reported performance information not reliable

49. Sufficient appropriate audit evidence with regard to the reported performance information of the following development priority/objectives could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information

Development priority/objective	KPI
Reliable and affordable electricity will be available to 80% of consumers by 2012	Provision of affordable and reliable electricity to 80% of consumers by 2012
All families in BCRM will live in adequate housing by 2012	Provision of adequate housing

APPRECIATION

50. The assistance rendered by the staff of the Blue Crane Route Municipality during the audit is sincerely appreciated.

Auditor General.

Port Elizabeth

30 November 2009



Auditing to build public confidence